

OPEN MEETING ITEM



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COMMISSIONERS
MARC SPITZER - Chairman
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
MIKE GLEASON
KRISTIN K. MAYES



ORIGINAL

RECEIVED Executive Secretary

ARIZONA CORPORATION COMMISSION

2004 JAN 22 P 1:35

DATE: January 22, 2004

ARIZONA CORPORATION COMMISSION
DOCUMENT CONTROL

DOCKET NOS: SW-03575A-03-0586 and W-03576A-03-0586

TO ALL PARTIES:

Enclosed please find the recommendation of Assistant Chief Administrative Law Judge Dwight D. Nodes. The recommendation has been filed in the form of an Opinion and Order on:

**PALO VERDE UTILITIES COMPANY and SANTA CRUZ WATER COMPANY
(CC&N EXTENSION)**

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00 p.m.** on or before:

FEBRUARY 2, 2004

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Open Meeting to be held on:

FEBRUARY 10 AND 11, 2004

For more information, you may contact Docket Control at (602)542-3477 or the Hearing Division at (602)542-4250. For information about the Open Meeting, contact the Executive Secretary's Office at (602) 542-3931

Arizona Corporation Commission
DOCKETED

JAN 22 2004

DOCKETED BY	
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BRIAN C. McNEIL
EXECUTIVE SECRETARY

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

3 MARC SPITZER, Chairman
4 WILLIAM A. MUNDELL
5 JEFF HATCH-MILLER
6 MIKE GLEASON
7 KRISTIN K. MAYES

8 IN THE MATTER OF THE APPLICATION OF
9 PALO VERDE UTILITIES COMPANY FOR AN
10 EXTENSION OF ITS EXISTING CERTIFICATE
11 OF CONVENIENCE AND NECESSITY.

DOCKET NO. SW-03575A-03-0586

9 IN THE MATTER OF THE APPLICATION OF
10 SANTA CRUZ WATER COMPANY FOR AN
11 EXTENSION OF ITS EXISTING CERTIFICATE
OF CONVENIENCE AND NECESSITY.

DOCKET NO. W-03576A-03-0586

DECISION NO. _____

OPINION AND ORDER

12 DATE OF HEARING: December 8, 2003
13 PLACE OF HEARING: Phoenix, Arizona
14 ADMINISTRATIVE LAW JUDGE: Dwight D. Nodes
15 APPEARANCES: Mr. Patrick Black, FENNEMORE CRAIG, P.C., on
16 behalf of Applicants; and
17 Ms. Lisa A. Vandenberg, Staff Attorney, Legal
18 Division, on behalf of the Utilities Division of the
Arizona Corporation Commission.

19 **BY THE COMMISSION:**

20 On August 18, 2003, Palo Verde Utilities Company ("Palo Verde") and Santa Cruz Water
21 Company ("Santa Cruz") (jointly, "Applicants") jointly filed an application in the respective, above-
22 captioned dockets seeking to extend their Certificates of Convenience and Necessity ("CC&N") to
23 various specified areas of Pinal County, Arizona.

24 On September 5, 2003, the Arizona Corporation Commission ("Commission") Utilities
25 Division ("Staff") filed its Sufficiency Letter indicating that the Applicants' application has met the
26 sufficiency requirements of A.A.C. R14-2-402(C) and R14-2-602(B).

27 On August 27, 2003, Sonoran Utility Services, L.L.C. ("Sonoran"), on behalf of 387
28 Domestic Water Improvement District and 387 Wastewater Improvement District (jointly, the

1 “Districts”) filed a Motion for Leave to Intervene. On August 28, 2003, Sonoran withdrew its request
2 for intervention on behalf of the Districts.

3 On August 28, 2003, Sonoran filed a Motion for Leave to Intervene on behalf of itself.
4 Sonoran claimed that the Districts have contracted with Sonoran “to manage the organization and
5 operation of the Districts’ business within their authorized boundaries.”

6 By Procedural Order issued October 2, 2003, this matter was scheduled for hearing on
7 December 8, 2003 and the Applicants were ordered to notify all property owners in the affected area
8 of the application and publish notice of the application. A procedural conference was scheduled for
9 October 14, 2003 to discuss Sonoran’s request for intervention.

10 On September 22, 2003, the Applicants amended their applications by deleting property
11 owned by three of the developers included in the original CC&N extension request.

12 At the October 14, 2003 procedural conference, Sonoran withdrew its intervention request
13 based on the amended application’s deletion of property located in the Districts (October 14, 2003 Tr.
14 5-6).

15 On October 31, 2003, the Applicants filed a Notice of Compliance with the Customer Notice
16 and Publication requirements set forth in the October 2, 2003 Procedural Order.

17 On November 19, 2003, the Applicants filed Supplemental Legal Descriptions for the three
18 properties that are included within the Applicants’ amended CC&N extension request.

19 On November 26, 2003, Staff filed its Staff Report in this matter recommending approval of
20 the application subject to certain modifications.

21 On December 8, 2003, a hearing was convened before a duly authorized Administrative Law
22 Judge of the Commission at its offices in Phoenix, Arizona. At the conclusion of the hearing, the
23 matter was taken under advisement pending submission of a Recommended Opinion and Order.

24 * * * * *

25 Having considered the entire record herein and being fully advised in the premises, the
26 Commission finds, concludes, and orders that:

27 **FINDINGS OF FACT**

- 28 1. Palo Verde and Santa Cruz are Arizona LLCs engaged in providing wastewater utility

1 service to approximately 636 customers and water utility service to approximately 885 customers,
2 respectively, in Pinal County, Arizona.

3 2. The original CC&Ns for Palo Verde and Santa Cruz were granted by the Commission
4 in Decision No. 61943 (September 17, 1999), as Arizona corporations incorporated by Michael
5 Reinbold.

6 3. In Decision No. 66394 (October 6, 2003), the Commission granted extensions of the
7 Applicants' CC&Ns for approximately 3,226 acres subject to a number of conditions, including the
8 requirement that each of the companies obtain a \$500,000 performance bond. Decision No. 66394
9 also retroactively approved the merger and transfer of assets and CC&Ns from the incorporated
10 utilities to Palo Verde Utilities Company, LLC, and Santa Cruz Water Company, LLC. The
11 Commission noted in that Decision that it was concerned with the fact that a court in Oregon has
12 entered a significant monetary judgment of more than \$60 million against the Applicants' president,
13 Mr. Reinbold, for fraud and milking corporate assets with respect to a failed business venture in
14 Oregon. That judgment is currently on appeal.

15 4. The evidence presented at the hearing in the prior proceeding indicated that neither
16 Mr. Reinbold, nor the other entities in which he owns a majority interest, have a controlling interest
17 in Santa Cruz or Palo Verde. However, Mr. Reinbold has 'control and input on the day-to-day
18 management' of the utilities (Decision No. 66394, at 11-12). Thus, in addition to the \$500,000
19 performance bond for each of the companies, Palo Verde and Santa Cruz were required to submit
20 monthly status reports and copies of all subsequent pleadings related to Mr. Reinbold's Oregon
21 Circuit Court judgment, including all appeals and related litigation (Id. at 14-15).

22 5. On November 3, 2003, Palo Verde and Santa Cruz filed in the prior dockets (Docket
23 Nos. SW-03575A-03-0167 and W-03576A-03-0167) an October 1, 2003 letter from the Oregon
24 Department of Justice to Mr. Reinbold regarding concern that Mr. Reinbold may have violated an
25 asset pledge agreement associated with his appeal. Mr. Reinbold's November 24, 2003 response to
26 the Oregon Department of Justice was filed in this proceeding on December 12, 2003. In that
27 response, Mr. Reinbold describes his ownership interests in various entities that are subject to the
28 pledge agreement and essentially denies that the pledge agreement has been violated.

1 6. As amended, the Applicants' proposed CC&N extension seeks authority to extend
2 water and wastewater service to specified areas of land owned by Elliot Homes, Inc., Performance
3 Construction, Inc./NU-CO-BB1-LLC, and Newport Holdings. The extension area is expected to
4 eventually be developed into 2,100 residential lots. The three parcels are located south of the
5 Applicants' current CC&N area.

6 7. The Applicants plan to finance the required utility facilities through a combination of
7 shareholder equity and advances in aid of construction ("AIAC"). According to the Staff Report,
8 Santa Cruz has entered into main extension agreements with the developers requesting service that
9 require refunds of 7 percent of the gross annual revenue from the associated facilities beginning 4
10 years after the facilities are accepted by Santa Cruz. Under the agreements, Santa Cruz is obligated
11 to pay the 7 percent annual refund to the developers for 22 years. The proposed wastewater main
12 extension agreements provide that Palo Verde will refund 2.5 percent of the gross annual revenue
13 received from the associated facilities beginning 4 years after the facilities are accepted. Palo Verde
14 would be obligated to pay the 2.5 percent annual refund to the developers for 22 years. Staff points
15 out that the proposed refund provisions exceed the minimum refund standards required in the
16 Commission's rules (Ex. S-1, at 3). Therefore, the terms of the agreements are acceptable to Staff.

17 8. Staff Engineering analyzed the Applicants' facilities and found that Santa Cruz has
18 five well sources, one of which is on line and serving customers, and two others that have been
19 refitted and are being held for future use. Santa Cruz has 3.0 million gallons of existing water storage
20 capacity (Tr. 11). Staff indicated that, although Santa Cruz appears to have an adequate source of
21 water, groundwater in the service area is typically characterized by high nitrates, fluorides, arsenic,
22 and total dissolved solids. However, the well currently in service meets all inorganic maximum
23 contaminant levels and has an arsenic concentration between 11 and 13 $\mu\text{g/l}$. Consistent with the
24 requirement set forth in Decision No. 66394, Staff recommends that Santa Cruz be required to submit
25 a report to the Utilities Division by December 31, 2004 describing what steps the company plans to
26 take in order to reduce the arsenic concentration below 10 $\mu\text{g/l}$ by January 2006, pursuant to new
27 federal clean water standards (Ex. S-1, at 4; Tr. 29-30).

28 9. The Staff Report indicates that Santa Cruz is currently delivering water that meets

1 water quality standards set forth in the Arizona Administrative Code. The Arizona Department of
2 Environmental Quality ("ADEQ") also reported that Palo Verde is in compliance with wastewater
3 treatment rules (Ex. S-1, at 4).

4 10. ADEQ Capacity Development rules require new public drinking water systems to
5 meet certain financial, managerial, and technical capacity requirements. Santa Cruz and Palo Verde
6 provided Staff with copies of their current "Approvals to Construct" (Id. at 5).

7 11. Santa Cruz is within the Pinal Active Management Area ("AMA") and, as a result, is
8 subject to reporting and conservation rules. The Pinal AMA reported to Staff that Santa Cruz is in
9 compliance with the Arizona Department of Water Resources ("ADWR") reporting and conservation
10 rules (Id.).

11 12. With respect to Palo Verde's wastewater infrastructure, Staff Engineering found that
12 the existing wastewater treatment plant is an aerated lagoon with a capacity of 300,000 gallons per
13 day ("gpd"). As of the end of 2002, wastewater flows were 111,000 gpd for the 636 current
14 customers. Palo Verde has begun construction of a new mechanical wastewater treatment plant
15 which will be built in three phases, with an initial capacity of 1 million gpd (Id.). The first phase of
16 that project is nearly completed and will have sufficient capacity to serve up to 6,700 homes (Tr. 20-
17 21). ADEQ has now issued an Aquifer Protection Permit ("APP") for the first phase of the project
18 (Tr. 12, 20). Effluent disposal will be accomplished by agricultural reuse, golf course irrigation,
19 recharge, and discharge to surface water via a federal permit (Ex. S-1, at 5).

20 13. Staff explained that, pursuant to Section 208 of the Federal Water Pollution Control
21 Act, the Central Arizona Association of Governments ("CAAG") is the designated water quality
22 planning agency for the requested CC&N areas. Staff states that CAAG has authority to develop and
23 approve general wastewater plans which include land development policies, service areas, objectives,
24 and standards for local growth and development. Palo Verde currently holds a CAAG §208 plan that
25 was approved in 1997. Staff recommends that Palo Verde be required to amend the CAAG §208
26 plan to include the proposed CC&N extension area before providing service to any permanent
27 customers (Id. at 5-6). At the hearing, Palo Verde's witness testified that the company's amended
28 CAAG §208 plan is expected to be given final approval in the near future (Tr. 9).

1 14. Based on its review, Staff made the following recommendations with respect to Santa
2 Cruz Water Company:

- 3
- 4 a) Require Santa Cruz to charge its existing rates and charges in the
5 proposed extension area;
- 6 b) Require Santa Cruz to file a copy of the developers' Certificate of
7 Assured Water Supply related to the proposed extension area¹;
- 8 c) Require Santa Cruz to file a copy of the municipal franchise² for
9 the extension area;
- 10 d) Require Santa Cruz to submit a report by December 31, 2004 (Tr.
11 29-30) describing its plan to reduce the arsenic level in its water;
- 12 e) Require Santa Cruz to complete compliance with all of Staff's
13 recommendations the earlier of 365 days of the Commission's
14 decision in this matter or 30 days prior to serving its first customer
15 in the proposed extension area; and
- 16 f) That failure to comply with the conditions and timeframes
17 discussed above would result in the CC&N extension becoming
18 null and void without further action of the Commission.

19 15. With respect to the wastewater extension request of Palo Verde Utilities Company,
20 Staff made the following recommendations:

- 21 a) Require Palo Verde to charge existing rates and charges in the
22 proposed extension area;
- 23 b) Require Palo Verde to submit a copy of the ADEQ approved
24 CAAG §208 plan amendment to the Director of the Utilities
25 Division;
- 26 c) Require Palo Verde to file a copy of the municipal franchise for the
27 extension area;
- 28 d) Require Palo Verde to complete compliance with all of Staff's
 recommendations the earlier of 365 days of the Commission's

¹ The Applicants' witness testified that Santa Cruz currently has an Assured Water Supply Designation issued by ADWR and, therefore, developers do not need to obtain their own designation. She indicated that Santa Cruz has begun the process to include the properties in the proposed CC&N extension area within Santa Cruz' designation (Tr. 6-7).

² Because Santa Cruz operates in an unincorporated area of Pinal County, the franchise authority is provided by Pinal County. The Applicants' witness stated that franchises for the extension area for both Santa Cruz and Palo Verde were filed on October 29, 2003 (Tr. 19).

1 decision in this matter or 30 days prior to serving its first customer
2 in the proposed extension area; and

- 3 e) That failure to comply with the conditions and timeframes
4 discussed above would result in the CC&N extension becoming
5 null and void without further action of the Commission.

6 16. After reviewing the testimony and evidence of record, we believe that Staff's
7 recommendations, as set forth in Finding of Fact Nos. 14 and 15, are reasonable and should be
8 adopted. Although the evidence indicates that neither Mr. Reinbold nor the other entities in which he
9 owns a majority interest have a controlling interest in Santa Cruz or Palo Verde, we have a continuing
10 concern with the significant monetary judgment in Oregon against Mr. Reinbold, the Applicants'
11 president. However, we believe the conditions imposed by Decision No. 66394, including the
12 maintenance of a \$500,000 performance bond for each company and ongoing reporting requirements
13 regarding Mr. Reinbold's appeal of the Oregon judgment, provide sufficient protection for customers
14 at this time. The Applicants have demonstrated that a public need for water and wastewater service
15 exists in the extension area and, subject to compliance with the conditions discussed above, that Palo
16 Verde and Santa Cruz are fit and proper entities to provide such service in the proposed extension
17 area. Therefore, subject to the conditions stated herein, the extension application shall be approved.

18 CONCLUSIONS OF LAW

19 1. Palo Verde and Santa Cruz are public service corporations within the meaning of
20 Article XV of the Arizona Constitution and A.R.S. §§40-281, 40-282 and 40-285.

21 2. The Commission has jurisdiction over Palo Verde and Santa Cruz and the subject
22 matter of the application.

23 3. Notice of the application was provided in accordance with law.

24 4. There is a public need and necessity for water and wastewater utility services in the
25 proposed extension area.

26 5. Subject to compliance with the above-stated conditions, Palo Verde and Santa Cruz
27 are fit and proper entities to receive extensions of their wastewater and water CC&Ns, for the
28 proposed extension area in Pinal County more fully described in Exhibit A attached hereto.

6. Staff's recommendations set forth in Finding of Fact Nos. 14 and 15 are reasonable

1 and shall be adopted.

2 **ORDER**

3 IT IS THEREFORE ORDERED that the application of Palo Verde Utilities Company, LLC,
4 and Santa Cruz Water Company, LLC, for an extension of their respective wastewater and water
5 CC&Ns, to an area in Pinal County more fully described in Exhibit A attached hereto be, and hereby
6 is granted, subject to the conditions more fully described herein.

7 IT IS FURTHER ORDERED that the current charges set forth in the respective tariffs of Palo
8 Verde Utilities Company, LLC, and Santa Cruz Water Company, LLC, shall be applied to all
9 customers in the CC&N extension area approved herein.

10 IT IS FURTHER ORDERED that Palo Verde Utilities Company, LLC, and Santa Cruz Water
11 Company, LLC, shall file copies of their respective amended Pinal County franchises within 365
12 days of this Decision, and prior to service being provided to customers in the extension area.

13 IT IS FURTHER ORDERED that, consistent with Decision No. 66394, Santa Cruz Water
14 Company, LLC, shall submit a report to the Director of the Utilities Division by December 31, 2004
15 describing what steps the company plans to take in order to reduce the arsenic concentration below
16 10 $\mu\text{g/l}$ by January 2006, pursuant to new federal clean water standards.

17 IT IS FURTHER ORDERED that Santa Cruz Water Company, LLC, shall file within 365
18 days of this Decision, but prior to service being provided to customers in the extension area, an
19 Amended Assured Water Supply Designation issued by ADWR that includes the appropriate
20 developers within Santa Cruz' designation.

21 IT IS FURTHER ORDERED that Palo Verde Utilities Company, LLC, shall file within 365
22 days of this Decision a copy of the approved CAAG §208 plan amendment that is currently pending.

23 IT IS FURTHER ORDERED that, in accordance with Decision No. 66394, Palo Verde
24 Utilities Company, LLC, and Santa Cruz Water Company, LLC, shall continue to maintain
25 performance bonds of \$500,000 each until further Order of the Commission.

26 IT IS FURTHER ORDERED that, in accordance with Decision No. 66394, Palo Verde
27 Utilities Company, LLC, and Santa Cruz Water Company, LLC, shall continue to file monthly status
28 reports and copies of all subsequent pleadings related to Mr. Reinbold's Oregon Circuit Court

judgment, including all appeals and related litigation, as well as any pleadings or correspondence related to the Oregon Department of Justice's investigation of the pledge agreement signed by Mr. Reinbold, or related matters.

IT IS FURTHER ORDERED that, in the event Palo Verde Utilities Company, LLC, and Santa Cruz Water Company, LLC, fail to comply with the above-stated conditions within the times specified, the CC&N extensions approved herein shall be deemed to be denied without further Order of the Arizona Corporation Commission.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN	COMMISSIONER	COMMISSIONER
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COMMISSIONER	COMMISSIONER	
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IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Secretary of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this ____ day of _____, 2004.

BRIAN C. McNEIL
EXECUTIVE SECRETARY

DISSENT _____

DISSENT _____

DDN:mj

1 SERVICE LIST FOR:

PALO VERDE UTILITIES COMPANY AND SANTA
CRUZ WATER COMPANY

2
3 DOCKET NOS.:

SW-03575A-03-0586 and W-03576A-03-0586

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**LEGAL DESCRIPTION FOR
AREA 3
PERFORMANCE CONSTRUCTION INC.**

PERFORMANCE CONSTRUCTION INC. Legal Description

BEING A PORTION OF THE NORTHWEST QUARTER OF SECTION 34 IN TOWNSHIP 4 SOUTH, RANGE 3 EAST OF THE GILA AND SALT RIVER BASE AND MERIDIAN, PINAL COUNTY, ARIZONA, BEING MORE PARTICULARLY DESCRIBED AS FOLLOWS:

BEGINNING AT THE NORTHWEST CORNER OF SAID SECTION 34; THENCE NORTH $89^{\circ} 24' 54''$ EAST, ALONG THE NORTH LINE OF SAID SECTION 34 A DISTANCE OF 2,751.05 FEET, MORE OR LESS, TO THE NORTH QUARTER CORNER OF SAID SECTION 34; THENCE SOUTH $00^{\circ} 12' 02''$ WEST, ALONG THE NORTH SOUTH MID-SECTION LINE OF SAID SECTION 34 A DISTANCE OF 2,664.95 FEET TO THE CENTER OF SAID SECTION 34; THENCE NORTH $89^{\circ} 51' 49''$ WEST, ALONG THE EAST WEST MID-SECTION LINE OF SAID SECTION 34 A DISTANCE OF 2,591.70 FEET, MORE OR LESS, TO THE WEST LINE OF SAID SECTION 34; THENCE NORTH $00^{\circ} 40' 29''$ WEST ALONG THE WEST LINE OF SAID NORTHWEST QUARTER 2,663.95 FEET, MORE OR LESS, TO THE POINT OF BEGINNING.

THE BASIS OF BEARING IS THE MONUMENT LINE OF MARICOPA ROAD, ALSO BEING THE WEST LINE OF THE NORTHWEST CORNER OF SECTION 34, TOWNSHIP 4 SOUTH, RANGE 3 EAST, USING A BEARING OF NORTH $00^{\circ} 06' 23''$ WEST.

CONTAINS 159.00 ACRES MORE OR LESS

**LEGAL DESCRIPTION FOR
AREA 5
NEWPORT HOLDINGS INC.**

NEWPORT HOLDINGS, INC. Legal Description

BEGINNING AT THE SOUTHWEST CORNER OF SECTION 35, TOWNSHIP 4 SOUTH, RANGE 3 EAST, GILA AND SALT RIVER BASE AND MERIDIAN, PINAL COUNTY, ARIZONA, THENCE NORTH $00^{\circ} 29' 40''$ WEST 5300 FEET, MORE OR LESS, ALONG THE WEST SECTION LINE OF SAID SECTION 35 TO THE NORTHWEST CORNER OF SAID SECTION 35, THENCE NORTH $89^{\circ} 30' 20''$ EAST 750 FEET, MORE OF LESS, ALONG THE NORTH SECTION LINE OF SAID SECTION 35 TO THE SOUTHWESTERLY RIGHT-OF-WAY LINE OF THE SOUTHERN RAILROAD, THENCE SOUTH $53^{\circ} 51' 30''$ EAST 1213 FEET ALONG SAID RIGHT-OF-WAY LINE, THENCE LEAVING SAID RIGHT-OF-WAY LINE, SOUTH $0^{\circ} 00' 00''$ EAST 4600 FEET, MORE OR LESS, TO THE SOUTH SECTION LINE OF SAID SECTION 35; THENCE NORTH $89^{\circ} 43' 51''$ WEST 1684 FEET, MORE OR LESS, ALONG SAID SOUTH SECTION LINE TO THE POINT OF BEGINNING (Containing 200 acres more or less).

**LEGAL DESCRIPTION FOR
AREA 6
ELLIOT HOMES INC.**

ELLIOTT HOMES, INC. Legal Description

PARCEL NO. 1:

The East half of the West half of Section 35, Township 4 South, Range 3 East of the Gila and Salt River Base and Meridian, Pinal County, Arizona, lying South and West of the Southwesterly right of way line of the Southern Pacific Railroad;

EXCEPT any portion lying within the following described property:

COMMENCING at the Southeast corner of said Section 35;

Thence North 89 degrees 19 minutes 10 seconds West, a distance of 1971.27 feet to the TRUE POINT OF BEGINNING;

Thence continuing North 89 degrees 19 minutes 10 seconds West, a distance of 765.30 feet;

Thence North 01 degree 19 minutes 10 seconds East, a distance of 1377.37 feet;

Thence South 27 degrees 53 minutes 16 seconds East, a distance of 1568.23 feet to the TRUE POINT OF BEGINNING; and

EXCEPT all oil, gas and mineral rights as reserved in instrument recorded in Docket 15, page 70.

PARCEL NO. 2:

The East half of Section 35, Township 4 South, Range 3 East of the Gila and Salt River Base and Meridian, Pinal County, Arizona, lying South and West of the Southwesterly right of way line of the Southern Pacific Railroad;

EXCEPT any portion lying within the following described property:

COMMENCING at the Southeast corner of said Section 35;

Thence North 89 degrees 19 minutes 10 seconds West, a distance of 1971.27 feet to the TRUE POINT OF BEGINNING;

Thence continuing North 89 degrees 19 minutes 10 seconds West, a distance of 765.30 feet;

Thence North 01 degree 19 minutes 10 seconds East, a distance of 1377.27 feet;

ELLIOTT HOMES, INC. Legal Description - continued

Thence South 27 degrees 53 minutes 16 seconds East, a distance of 1568.23 feet to the TRUE POINT OF BEGINNING; and

EXCEPT any portion lying within the following described property:

COMMENCING at the Southeast corner of said Section 35;

Thence North 01 degree 12 minutes 36 seconds East, a distance of 77.50 feet to the TRUE POINT OF BEGINNING;

Thence South 89 degrees 44 minutes 11 seconds West, a distance of 660.00 feet;

Thence North 01 degree 12 minutes 38 seconds East, a distance of 1320 feet;

Thence North 89 degrees 44 minutes 11 seconds East, a distance of 660.00 feet;

Thence South 01 degree 12 minutes 36 seconds West, a distance of 1320 feet to the TRUE POINT OF BEGINNING; and

EXCEPT one-half of all oil, gas and other minerals as reserved in instrument recorded in Book 85 of Deeds, page 228.

EXCEPT from Parcel Nos. 1 and 2 herein, any portion lying within the following described property, as set forth by instrument recorded in Fee No. 2000-016849:

BEGINNING at the Southwest corner of Section 35, Township 4 South, Range 3 East of the Gila and Salt River Base and Meridian, Pinal County, Arizona;

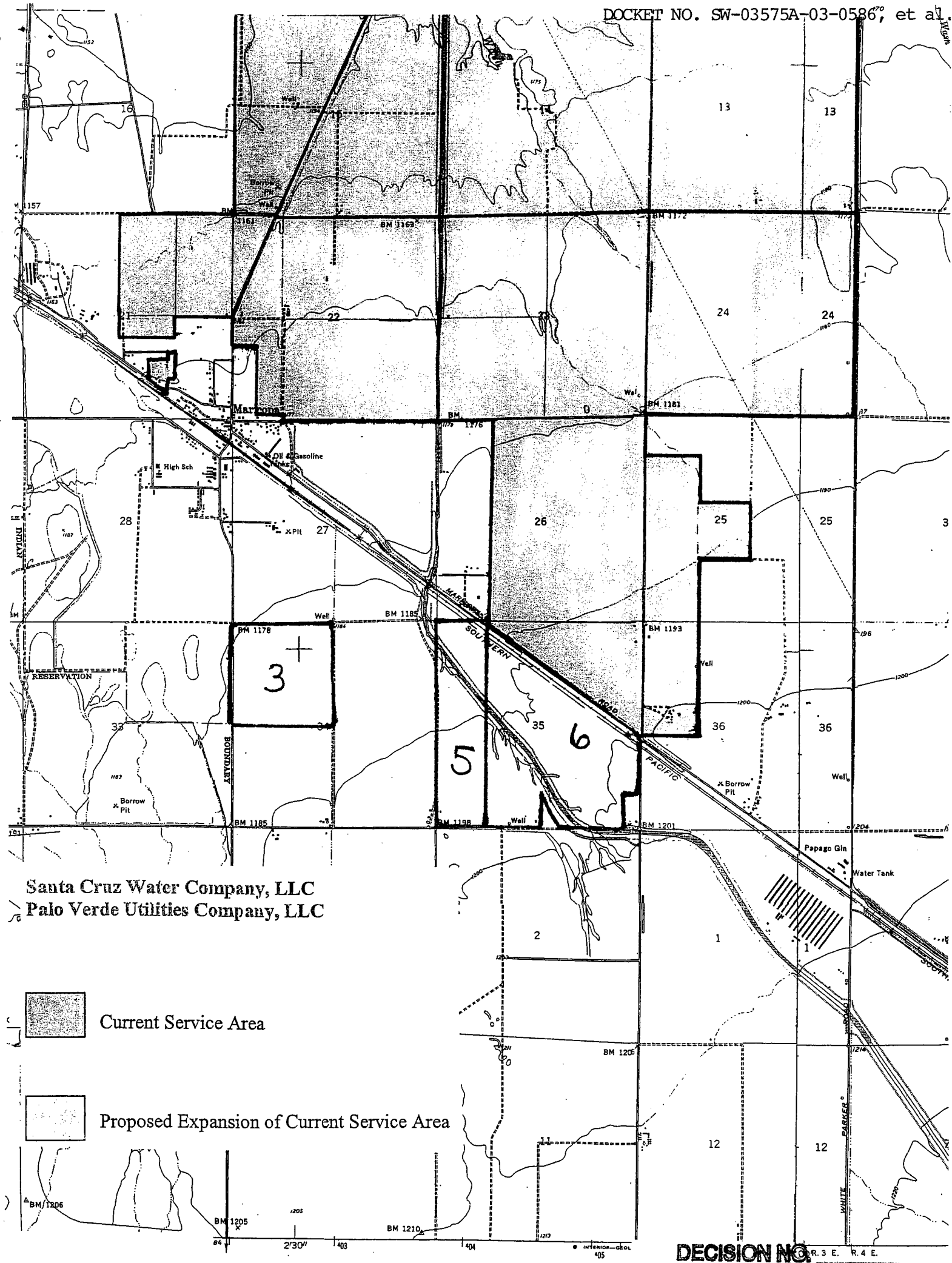
Thence North 00 degrees 22 minutes 40 seconds East 5264 feet, more or less, along the West section line of said Section 35 to the Northwest corner of said Section 35;

Thence North 89 degrees 05 minutes 27 seconds East, 824 feet, more or less, along the North section line of said Section 35 to the Southwesterly right of way line of the Southern Pacific Railroad;

Thence South 53 degrees 52 minutes 38 seconds East 1066 feet along said right of way line;

Thence leaving said right of way line, South 00 degrees 00 minutes 00 seconds East 4656 feet, more or less, to the extension of the South section line of Section 35 of said Township and Range;

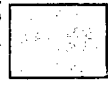
Thence North 89 degrees 43 minutes 51 seconds West 1702 feet, more or less, along said South section line to the POINT OF BEGINNING.



Santa Cruz Water Company, LLC
Palo Verde Utilities Company, LLC



Current Service Area



Proposed Expansion of Current Service Area